

**Gibson County Railroad Authority  
Financial Statements  
June 30, 2010**

**Gregory N. Lee, CPA**  
1310 E Main Street  
Humboldt, TN 38343  
Tel. 731-784-9452  
Fax. 731-784-7751

# **Gibson County Railroad Authority**

## **June 30, 2010**

---

### **Table of Contents**

<u>Page Title</u>	<u>Page</u>
Independent Auditor's Report	1
Statement of Net Assets	3
Statement of Activities	4
Fund Balance Sheet – Governmental Funds	5
Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Funds	6
Statements of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	7
Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds	8
Notes to the Financial Statements	9
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	12
Schedule of Findings & Responses	14
Management Letter	16

**Independent Auditor's Report**

To the Board of Directors  
Gibson County Railroad Authority

We have audited the accompanying financial statements of the governmental activities and each major fund of Gibson County Railroad Authority as of and for the year ended June 30, 2010, which collectively comprise the Railroad's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Gibson County Railroad Authority, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Gibson County Railroad Authority, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. Gibson County Railroad Authority has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements. The omission of required supplementary information does not affect the opinion on the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2010, on our consideration of Gibson County Railroad Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial

reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Gregory N. Lee". The signature is stylized with a large, sweeping initial "G" and a long, horizontal stroke extending to the right.

Gregory N. Lee, CPA  
Humboldt, Tennessee  
December 23, 2010

**Gibson County Railroad Authority**  
**Statement of Net Assets**  
**June 30, 2010**

	<u>Primary Government Governmental Activities</u>
<b><u>Assets</u></b>	
Current Assets:	
Cash and Cash Equivalents	\$ 200,396
Certificates of Deposit	404,932
Accounts Receivable	22,550
Non-Current Assets:	
Notes Receivable	<u>109,614</u>
<b>Total Assets</b>	<b><u>737,492</u></b>
<b><u>Liabilities</u></b>	
Accounts Payable	<u>23,565</u>
<b>Total Liabilities</b>	<b><u>23,565</u></b>
<b><u>Net Assets</u></b>	
Invested in Capital Assets, net of related debt	-
Unrestricted (deficit)	<u>713,927</u>
<b>Total Net Assets</b>	<b><u>\$ 713,927</u></b>

*The notes to the financial statements are an integral part of this statement.*

**Gibson County Railroad Authority**  
**Statements of Activities**  
**For the Year Ended June 30, 2010**

					Net (Expense) Revenue and Changes in Net Assets
					Primary Government
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
<b>Primary Government</b>					
Governmental Activities					
General Government	\$ 347,932		\$ 273,555		\$ (74,377)
Public Safety					-
Public Services					-
Culture & Recreation					-
Interest and Other Charges					-
Total Governmental Activities	347,932	-	273,555	-	(74,377)
General Revenues					
Interest					10,672
Total General Revenues					10,672
<b>Change in Net Assets</b>					<b>\$ (63,705)</b>
<b>Net Assets, July 1, 2009</b>					<b>777,632</b>
<b>Net Assets, June 30, 2010</b>					<b>\$ 713,927</b>

*The notes to the financial statements are an integral part of this statement.*

**Gibson County Railroad Authority**  
**Fund Balance Sheets**  
**Governmental Funds**  
**June 30, 2010**

	<b>Primary Government</b>	
	<b>General Fund</b>	<b>Total Governmental Funds</b>
<b><u>Assets</u></b>		
Cash and Cash Equivalents	\$ 200,396	\$ 200,396
Certificates of Deposit	404,932	404,932
Accounts Receivable	22,550	22,550
Notes Receivable	109,614	109,614
<b>Total Assets</b>	<b>\$ 737,492</b>	<b>\$ 737,492</b>
<b><u>Liabilities</u></b>		
Accounts Payable	23,565	23,565
<b>Total Liabilities</b>	<b>23,565</b>	<b>23,565</b>
<b><u>Fund Balances</u></b>		
Unreserved, Reported In:		
General Fund	713,927	713,927
<b>Total Fund Balances</b>	<b>713,927</b>	<b>713,927</b>
<b>Total Liabilities &amp; Fund Balances</b>	<b>\$ 737,492</b>	<b>\$ 737,492</b>

*The notes to the financial statements are an integral part of this statement.*

**Gibson County Railroad Authority**  
**Reconciliation of the Balance Sheet to the Statement of Net Assets**  
**Governmental Funds**  
**June 30, 2010**

---

Fund Balances - Total Governmental Funds	\$ 713,927
Net Assets of Governmental Activities	<u>\$ 713,927</u>

*The notes to the financial statements are an integral part of this statement.*



**Gibson County Railroad Authority**  
**Statements of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2010**

	<b>Primary Government</b>	
	<b>General Fund</b>	<b>Total Governmental Funds</b>
<b><u>Revenues</u></b>		
Department of Transportation	\$ 273,555	\$ 273,555
Interest	10,672	10,672
Total Revenues	<u>284,227</u>	<u>284,227</u>
<b><u>Expenditures</u></b>		
Current Operating:		
General Government:		
Advertising	2,588	2,588
Dues & Subscriptions	4,125	4,125
Engineering	328,439	328,439
Foreign Trade Zone Expense	5,000	5,000
Insurance	975	975
Legal & Professional	6,800	6,800
Travel	5	5
Total Expenditures	<u>347,932</u>	<u>347,932</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>\$ (63,705)</u>	<u>\$ (63,705)</u>
<b>Net Change in Fund Balances</b>	<b>\$ (63,705)</b>	<b>\$ (63,705)</b>
<b>Fund Balances, July 1, 2009</b>	<u><b>777,632</b></u>	<u><b>777,632</b></u>
<b>Fund Balances, June 30, 2010</b>	<u><b>\$ 713,927</b></u>	<u><b>\$ 713,927</b></u>

*The notes to the financial statements are an integral part of this statement.*

**Gibson County Railroad Authority**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances to the Statement of Activities**  
**Governmental Funds**  
**June 30, 2010**

---

Net Change in Fund Balances - Total Governmental Funds	\$ (63,705)
--	-------------

Change in Net Assets of Governmental Funds	<u>\$ (63,705)</u>
--	--------------------

*The notes to the financial statements are an integral part of this statement.*

# **Gibson County Railroad Authority**

## **Notes to the Financial Statements**

### **June 30, 2010**

---

#### **Note 1 - Summary of Significant Accounting Policies**

The Gibson County Railroad Authority (the Railroad) was established in 1984, pursuant to TCA 7-56-201. The Railroad is a pass-through entity for state funds. Those funds are used for repairs, maintenance, construction, and rehabilitation of the rail line.

#### **Reporting Entity**

The Railroad was created by Gibson County, Tennessee, in conjunction with Madison County and the cities of Trenton, Humboldt, Dyer, Rutherford, and Kenton. The Board is composed of the County Executive of Gibson and Madison counties, the mayors of Trenton, Humboldt, Dyer, Rutherford, and Kenton, and one at-large member from each of the above areas; however, the counties and cities do not have any ongoing financial interest or responsibility for the entity. The Railroad has no associated component units.

#### **Government-Wide and Fund Financial Statements**

##### *Government-Wide Financial Statements*

The Government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Railroad as a whole. Individual funds are not displayed.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges to users of the Railroad's services, (2) operating grants and contributions which finance annual operating activities, and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

##### *Fund Financial Statements*

Fund financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns. The Railroad has no non-major funds.

#### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The financial statements of the Railroad are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Railroad applies all relevant

# **Gibson County Railroad Authority**

## **Notes to the Financial Statements**

### **June 30, 2010**

---

Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principals Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Railroad does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Revenues are recorded when earned and expenses are recorded when a liability is incurred., regardless of the timing of related cash flows.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Railroad considers revenues to be available if they are collected within 30 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred except for general obligation principal and interest which are reported as expenditures in the year due.

Major revenue services susceptible to accrual include: Department of Revenue funds and Interest. In general, other revenues are recorded when cash is received.

#### Fund Types and Major Funds

##### *Governmental Funds*

The Railroad reports the following major governmental funds:

**General Fund** – reports as the primary fund of the Railroad. This fund is used to account for all financial resources.

##### *Other Fund Types*

The Railroad has no other fund types.

#### Cash and Cash Equivalents

The Railroad considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

**Gibson County Railroad Authority**  
**Notes to the Financial Statements**  
**June 30, 2010**

---

Capital Assets, Depreciation, and Amortization

The Railroad has no capital assets.

Long-term Debt

The Railroad has no long-term debt.

Compensated Absences

The Railroad has no employees.

Budgets

The Railroad has not adopted a formal budget and is not legally required to do so.

Use of Restricted Resources

The Railroad has no restricted resources.

**Note 2 – Cash and Investments**

The Railroad is authorized to invest in interest-bearing checking accounts, savings accounts, certificates of deposits, Tennessee Local Government Investment Pool, and Government Securities. As of the financial statement date, the reported amount and fair amount of the Railroad's interest-bearing deposits was \$560,718. All funds of the Railroad on deposit at financial institutions have federal depository insurance and collateral held by the Railroad's agent in the Railroad's name.

**Note 3 - Risk Management**

The Railroad has no employees. Officers of the Railroad are bonded for \$50,000 through the RLI Insurance Company.

**Note 4 – Notes Receivable**

The Railroad has loaned the City of Trenton Economic and Industrial Development Board \$100,000 at 1.5% interest in the form of a demand note. There is no collateral. This note is part of a joint effort between the Railroad and the City of Trenton Economic and Industrial Development Board to promote industry in Gibson County. The proceeds of the note were used to help construct a shell building to attract industrial prospects. The building has railroad access. Based on TCA 7-59-205, the Railroad has the authority to invest in property that is suitable for industry using the rail service.

**Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed  
in Accordance with Government Auditing Standards**

To the Board of Directors  
Gibson County Railroad Authority

We have audited the financial statements of the governmental activities and each major fund of Gibson County Railroad Authority, as of and for the year ended June 30, 2010, which collectively comprise the Gibson County Railroad Authority's basic financial statements and have issued our report thereon dated December 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Gibson County Railroad Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of Gibson County Railroad Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gibson County Railroad Authority's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting: finding 2010-01 is considered a significant deficiency. A

*significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gibson County Railroad Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Gibson County Railroad Authority in a separate letter dated December 23, 2010.

Gibson County Railroad Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit Gibson County Railroad Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Gregory N. Lee, CPA  
Humboldt, Tennessee  
December 23, 2010

**Gibson County Railroad Authority**  
**Schedule of Findings & Responses**  
**June 30, 2010**

---

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Gibson County Railroad Authority.
2. Reportable conditions were disclosed during the audit. The reportable conditions are as shown in Part B. None of the reportable conditions are material weaknesses.

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**2010-01 – Significant Deficiency: Management Oversight and Monitoring**

***Condition:***

Financial Statements are not reviewed by the Board of Directors on a periodic basis.

***Criteria:***

The financial statements should be presented to and reviewed by the governing body on a periodic basis.

***Cause:***

Poorly designed policies and procedures.

***Effect:***

Misstatements due to error or fraud could occur without being detected and corrected.

***Recommendation:***

Financial statements should be reviewed by the Board of Directors on a periodic basis, either monthly or quarterly.

***Management Response:***

Management concurs with the finding. At present, the Board of Directors does not meet on a monthly basis. However, we understand the important nature of this control procedure, and we will consider ways in which the financial statements can be reviewed by the governing body.

**2010-02 – Control Deficiency: No Budget**

***Condition:***

No budget is adopted by the organization.

***Criteria:***

A budget should be adopted each year, and results compared against the budgeted amounts.



**Gibson County Railroad Authority**  
**Schedule of Findings & Responses**  
**June 30, 2010**

---

***Cause:***

Poorly designed policies and procedures.

***Effect:***

Misstatements due to error or fraud could occur without being detected and corrected.

***Recommendation:***

A budget should be adopted each year, and results should be compared against the budgeted amounts on a periodic basis.

***Management Response:***

Management concurs with this finding, but feels that, due to the unique “pass-through” nature of the organization’s revenue and significant expenses, a budget is not a useful tool.

**2010-03 – Control Deficiency: Independent Review of Bank Statements and Bank Reconciliation**

***Condition:***

Bank statements are not reviewed by a person independent of the reconciliation process prior to being presented for reconciliation. Likewise, the bank reconciliation is not reviewed by a person independent of the reconciliation process.

***Criteria:***

Internal control procedures should be sufficient to decrease the risk of material misstatements due to errors or fraud.

***Cause:***

Poorly designed policies and procedures.

***Effect:***

Misstatements due to error or fraud could occur without being detected and corrected.

***Recommendation:***

The bank statements should be reviewed by a person independent of the reconciliation process before being presented for reconciliation. Also, the reconciliation should be reviewed by a person independent of the reconciliation process.

***Management Response:***

Management concurs with the finding. Management considers this to be a good internal control procedure and will consider implementing it.

**Management Letter**

To the Board of Directors  
Gibson County Railroad Authority  
Trenton, Tennessee

In planning and performing our audit of the financial statements of Gibson County Railroad Authority for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Gibson County Railroad Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gibson County Railroad Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Gibson County Railroad Authority's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate letter dated December 23, 2010 contains our communication of significant deficiencies or material weaknesses in the Gibson County Railroad Authority's internal control. This letter does not affect our report dated December 23, 2010, on the financial statements of Gibson County Railroad Authority.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with management of Gibson County Railroad Authority, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

1. Two signatures are not required on checks. Requiring two signatures on all checks or on checks which exceed a pre-defined threshold can serve to further strengthen internal control and operating efficiency over cash disbursements and help to further reduce the risk of misstatement due to error or fraud.

We wish to thank the accounting department for their support and assistance during our audit.

This report is intended solely for the information and use of management, the shareholders, and others within Gibson County Railroad Authority and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Gregory N. Lee, CPA". The signature is stylized with a large, sweeping initial "G" and "L".

Gregory N. Lee, CPA  
Humboldt, Tennessee  
December 23, 2010